

☐ Action
☒ Discussion
☒ Information

SUBJECT: 2015-2016 KING COUNTY WASTEWATER RATE PROPOSAL UPDATE

STAFF CONTACT: Nav Ota, Utilities, 452-2041; Joyce Nichols, CMO, 452-4225; Alison Bennett, Utilities, 452-2808

POLICY ISSUE: During the week of April 21, the King County Executive is expected to transmit to the King County Council the proposed wastewater rate schedule for 2015-2016. The proposal is expected to be a 5.6% increase in the wholesale rate charged to jurisdictions that are part of the King County regional wastewater treatment system. Bellevue's utility financial policies specify that cost increases or decreases for wholesale services shall be passed through directly to Bellevue customers. The rate proposal is also expected to include a 3% increase in the capacity charge on new connections to the wastewater system. The King County Council must take action on the rate increase by June 30, 2014 in order to begin collecting the new rate in January 2015. The full rate increase will take place in 2015; no additional increase is proposed for 2016.

NEEDED FROM COUNCIL: No action is requested by Council at this time. Pam Elardo, King County Wastewater Treatment Division Director, will be at the April 28 meeting to provide a briefing on the Executive's proposed rate increase. Council will have an opportunity to ask questions of County staff and provide direction for Bellevue staff if needed.

BACKGROUND:

King County provides wastewater services for most of King County. Bellevue has contracted with King County for treatment and disposal of all wastewater flows generated within the City's wastewater service area through the year 2036. King County operates and maintains the regional wastewater system, including treatment plants, pipelines, pump stations and other related facilities.

The County does not bill individual property owners for wastewater services. Instead, it charges the City an amount based on the County's monthly rate and the number of single family customers the City serves, plus the Residential Customer Equivalent (RCE) (volume based charge) for multi-family, commercial and industrial. In turn, the City bills its customers to recover the County charge, plus the amount needed to operate and maintain the City's wastewater collection systems.

The briefing from County staff is timely in that it comes in advance of the City's budget development. The proposed wastewater rate increase will be factored in to the City's rate development process that is now underway.

Proposed Rate Increase for 2015-2016

The proposed rate is a one-year increase of 5.6% in the monthly wholesale sewer rate for 2015 and no additional increase for 2016, resulting in an average annual increase of 2.8% for 2015-2016. The current King County wholesale monthly rate is \$39.79 and the proposed rate for 2015 is \$42.03, a difference of \$2.24.

The rate proposal is \$0.62 less than originally projected by the County in the fall of 2013, as shown in the County's previous forecast information:

	2013	2014	2015	2016	2017	2018	2019
Previous Benchmark	\$39.79	\$39.79	\$42.65	\$42.65	\$45.03	\$45.64	\$46.48
% Change	10.2%	0.0%	7.2%	0.0%	5.6%	1.4%	1.8%
2015-2016 Proposed Rate	\$39.79	\$39.79	\$42.03	\$42.03	\$44.75	\$45.57	\$46.47
% Change	10.2%	0.0%	5.6%	0.0%	6.5%	1.8%	2.0%
\$\$ Difference			(\$0.62)	(\$0.62)	(\$0.28)	(\$0.07)	(\$0.01)

According to County staff, major drivers of the rate include an increased number of residential customer equivalents, debt service, use of the rate stabilization reserve, and operating expenses. Within operating expenses, the major drivers are the new "Our Waters" program (described below), general inflation, central charge increases and projected chemical and electricity price increases. **Attachment A** shows the details of the financial impact of each driver and the roll-up to the total increase of \$2.24.

The proposed 5.6% increase in the County's wholesale rate would result in approximately a 3.4% retail rate increase for Bellevue residential customers, or about \$2.36 more per month. If this proposed increase in the monthly rate is adopted, the average monthly wastewater bill for Bellevue residential customers would be \$71.00 in 2015 compared with the current monthly rate of \$68.64. The King County portion of the proposed 2015 rate would be \$44.34 and the local portion to maintain the City's system is \$26.66. This 2015 estimate for a typical bill does not currently include any local program increases. Any changes proposed in the local portion of the rate will be brought to Council as part of the City's 2015 – 2016 budget process.

The proposal also includes a 3% increase in the capacity charge from the current monthly rate of \$55.35 to \$57.00 for 2015. A capacity charge is paid by new connections to the regional wastewater system. This "growth-pays-for-growth" policy was adopted by the King County Council.

Every three years the King County Wastewater Treatment Division (WTD) staff performs an analysis of the capacity charge methodology, growth projections, interest rate assumptions, updated cost estimates and other factors. The most recent analysis was conducted in 2013 and is used to set the capacity charge for 2014-2016. At the proposed rate of \$57.00, the total capacity charge is \$10,260 if paid in monthly payments for 15 years, or \$8,122 if paid in a lump sum. The capacity charge evaluation will occur again in 2016 in preparation for a new capacity charge for 2017-2019 and will review all capital and borrowing projections and assumptions.

"Our Waters" Program

A lawsuit was filed against the County in 2008 that challenged the legality of expending wastewater rate revenues on water quality improvement activities, programs and projects. In the past, this was known as the "Culver" fund, and its use was directed by County Councilmembers for a wide variety of projects, some even outside the County's contract service area and some with little connection to the WTD's treatment and disposal of wastewater from contract agencies. While the lawsuit was pending, King County WTD did not include these funds (from 2010 through 2014) in the budget. In 2013, the Washington State Supreme Court upheld the County's use of sewer revenues for water quality projects that provide a benefit to the WTD. In response, the County is proposing an "Our Waters" program for 2015 to fund activities in a manner consistent with the Court's decision.

The County is proposing a 1.5% "Our Waters" program – about \$2.1 million per year. In contrast to the Culver program, which had no criteria or contract agency input, WTD is proposing that the new "Our Waters" Program have explicit parameters to guide it and that a small group of contract agencies work together with WTD through the Metropolitan Water Pollution Abatement Advisory Committee (MWPAAC) to develop the new program criteria.

FTE Increases

As you are aware, King County WTD is subject to a federal consent decree to implement a \$700 million plan to control combined sewer overflows (CSOs). WTD must deliver 13 new projects to accomplish this. WTD's capital program construction cost will be increasing by 63% over the next 15 years, and WTD is asking for a 7% capital increase of 11 FTEs to implement the CSO program (project managers, engineers, consultant oversight). WTD is also asking for an additional 4 FTEs in the operations budget to backfill senior staff involved in CSO planning and to ensure trained staff is available for future system operations and new CSO facilities.

MWPAAC Letter

King County WTD has briefed MWPAAC on the proposed rate increase. MWPAAC's concerns include the "Our Waters" program and FTE increases mentioned above, along with budget and rate implications of the CSO plan and a new "Recovery and Resiliency" review that might lead to significant future capital outlays. MWPAAC also continues to have concerns regarding future capital funding and WTD's debt load. To that end, MWPAAC is working with WTD on a debt review analysis that is anticipated to wrap up by mid-year. **Attachment B** is the letter sent by MWPAAC to King County Executive Constantine regarding the 2015-2016 rate increase.

King County Wastewater Division Director Pam Elardo will be making a presentation at the April 28 study session on the Executive's proposed rate increase. Council will have an opportunity to ask questions about the rate increase and provide direction for Bellevue staff if needed.

ALTERNATIVES: N/A

RECOMMENDATIONS: N/A

ATTACHMENT:

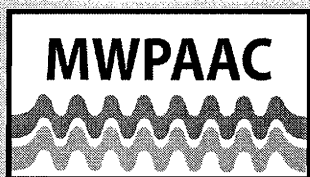
A - Drivers of the Sewer Rate Increase

B - MWPAAC Letter to Executive Constantine dated March 28, 2014

Drivers of the Sewer Rate Increase

	<u>Sewer Rate</u>	<u>Change from 2014</u>
2014 Sewer Rate	\$39.79	
Revenues and Customer Charges		
Capacity Charge growth		(\$0.78)
Higher Number RCEs		(\$0.56)
Other Income		(\$0.07)
Investment Income		(\$0.06)
Subtotal		(\$1.47)
Use of Rate Stabilization Reserve		\$1.05
2014 Reserve Use Supporting Rate \$24.8 Million		
2015/2016 Average Reserve Use Supporting Rate \$15.8 Million		
Operating Expenses		\$1.19
Capital Program and Debt Service		
Increased Parity Debt Service		\$0.52
Increased SRF & Variable Debt Service		\$0.95
Subtotal		\$1.47
Total Rate Increase		\$2.24
2015 Executive's Proposed Rate	\$42.03	

* The 2014 Adopted Budget Financial Plan forecasted a 2015 rate of \$42.01 or an average rate of \$42.65 for 2015 & 2016.



Metropolitan Water Pollution Abatement Advisory Committee

King Street Center, 201 South Jackson Street, MS KSC-NR-0512
Seattle, WA 98104 206-263-6070

MEMBERS:

Alderwood Water and
Wastewater District
City of Algona
City of Auburn
City of Bellevue
City of Black Diamond
City of Bothell
City of Brier
City of Carnation
Cedar River Water and Sewer District
Coal Creek Utility District
Cross Valley Water District
Highlands Sewer District
City of Issaquah
City of Kent
City of Kirkland
City of Lake Forest Park
Lakehaven Utility District
City of Mercer Island
Midway Sewer District
Northeast Sammamish Sewer District
Northshore Utility District
Olympic View Water and Sewer District
City of Pacific
City of Redmond
City of Renton
Ronald Wastewater District
Sammamish Plateau Water and
Sewer District
City of Seattle
Skyway Water and Sewer District
Soos Creek Water and Sewer District
Southwest Suburban Sewer District
City of Tukwila
Val View Sewer District
Vashon Sewer District
Woodinville Water District

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March 28, 2014

The Honorable Dow Constantine
King County Executive
401 Fifth Avenue
Seattle, WA 98104

SUBJECT: Wastewater Treatment Division 2015 Rate Recommendation

Dear Executive Constantine:

The Metropolitan Water Pollution Abatement Advisory Committee (MWPAAC) has reviewed the Wastewater Treatment Division's (WTD) rate proposal for 2015 and 2016, and with it the revised rate forecast for 2016-2019. Based on that review, with the exception of our concerns regarding the Our Waters Program expressed below in the fourth bullet, we cautiously support the proposed 2015 – 2016 rate of \$42.03, an increase of \$2.24/month (5.6%) compared with the 2013 – 2014 rate. While we support the increase, we have concerns that taking a smaller-than-originally-projected rate increase at this time will result in necessarily larger-than-projected rate increases in the future to fund growing debt service payments, especially considering the possibility of increased capital outlays related to the Resiliency and Recovery Program Review.

While the Committee understands the County's desire to prepare a bi-annual budget and recognizes the work efficiencies gained in doing so, members continue to encourage the County, as part of that process, to develop annual rate adjustments for the two-year period. Smaller annual step increases allow local agencies to gradually and steadily increase rates instead of instituting larger and more politically difficult two-year adjustments. We also wish to highlight several topics that will require further review by the Committee during 2014, and which could affect our recommendation for WTD rates in 2016 and beyond. These are discussed below.

- Rate Process Schedule Challenges
 - Our work on the rate proposal was negatively impacted by moving the rate review deadline up by three weeks. This decision added time pressures to both committee members and WTD staff that did not exist previously, making a difficult process even more so. We believe the change in schedule prevented a more thorough review and constructive input from MWPAAC, which might otherwise have included the possibility of incorporating more complete information on some of the topics described below.

- Debt Review Committee Participation
 - The MWPAAC Debt Review Team looks forward to its continued engagement with WTD and the outside consultant to develop recommendations regarding the best path for future capital financing and rate implementation. WTD expects to wrap up the analysis by mid-year 2014. The information will further strengthen our understanding of these topics and inform our future recommendations. As part of this work, committee members formally request that the County provide an analysis of how ratepayers benefit from lower debt issuance costs by using the County's credit rating (with the associated premium paid to the County for usage of said credit rating) than would occur if WTD were to issue under its own bond rating.
- Recovery and Resiliency Program Review
 - The County has initiated an important new study of the potential vulnerability of WTD facilities and operations to natural and man-made events. This could lead to significant capital outlays to protect the public and our infrastructure investments. Being mindful of budget and rate implications, MWPAAC supports the study and looks forward to working with the County to address these concerns in a fiscally responsible manner.
- Our Waters Program
 - MWPAAC members acknowledge that recent court rulings allow the establishment of the Our Waters program. Members recognize that the proposed expenditures not to exceed 1.5% of WTD's annual operating budget amount up to 26 cents per month per residential customer equivalent. We remain concerned about the cumulative impact on rates from the continued addition of new programs with undefined needs or goals. This is especially difficult to support prior to seeing the results of the Debt Review Analysis. Should this program be included in the rate, MWPAAC expects to work jointly with WTD, prior to the adoption of the 2015 budget, to develop a program that supports both MWPAAC and WTD's goals of providing direct benefits to the service area.
- Industrial Waste Fee Structuring Update
 - MWPAAC anticipates there could be significant changes to the fee structure, given changes in technology and our communities since this program was last updated 15 years ago. MWPAAC looks forward to working with WTD to develop any proposed changes to the fee structure, allocation updates, and any program updates.

- Budget and Rate Implications of Emerging CSO Reduction Program
 - Members recognize that WTD is under the order of a Federal Consent Decree to complete its remaining Combined Sewer Overflow control projects. As a result, members understand that there will be rate impacts generated from this program and request a continuation of WTD's efforts to keep us up-to-date and informed of new developments, particularly as those developments relate to rates.
- Increase in number of Full Time Equivalents (FTEs) at WTD
 - WTD has proposed the addition of 15 FTEs (employees) beginning with the 2015 budget. WTD indicated that 11 of the 15 new FTEs will be funded through the capital program (working specifically on CSO projects) and the other four will be funded through operations. Members recognize that WTD is under a Federal Consent Decree to correct CSO issues, and is facing issues with retirement and position succession, and is also operating the Brightwater Treatment Facility with no increase in FTEs as originally proposed. While MWPAAC is always concerned about adding new FTEs, we are supportive for this purpose and appreciative of WTD's continuing to evaluate the cost savings and other benefits of hiring FTEs rather than consultants for projects.

Reflecting over the past year, MWPAAC makes these recommendations with a continued commitment to a partnership with WTD and the County for effective wastewater management. We remain appreciative of WTD's efforts to be open and give MWPAAC a meaningful role, and look forward to an improved collaborative relationship, based on the recommendations in this letter.

Sincerely,



Scott Thomasson
MWPAAC Chair

cc: Metropolitan Water Pollution Abatement Advisory Committee Members